

**Round Table Discussion on Report of Working Group of RBI
on Restructuring of Advances by Banks/ FIs**

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VIABILITY ISSUES – BANKERS’ RESPONSE

Presentation by

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RECAPITULATING THE CONTEXT

SCBs	Mar-10	Mar-11	Mar-12
Gross NPAs (%)	2.51%	2.36%	2.94%
Restr. Std. Assets (%)	4.23%	3.45%	4.68%
Total (%)	6.74%	5.81%	7.62%

Reference to CDR	Mar-10	Mar-11	Mar-12
- No. of Cases	31	49	87
- Amt. (Rs. Bn.)	202	226	679
Approved by CDR			
- No. of Cases	31	27	50
- Amt. (Rs. Bn.)	178	66	396

Growth in Bank Credit (2009-12)	19.13%
Rise in Restructured advances (2009-12)	42.54%
Rise in CDR references (2009-12)	No. : ~ 3 times
	Amt.: > 3 times

Entry Exit Regime

- ***‘Entry Easy’ – ‘Exit Difficult’***
- **This needs to be reversed**
- ***‘Entry Difficult’ – ‘Exit Easy’***
- **Restructure only entities having LONG TERM VIABILITY**
- **RBI Working Group Recommendations – in that direction (Mandatory Personal Guarantee, Higher Promoters’ Contribution, Lesser Recompense, etc.)**

ISSUES IN LONG-TERM VIABILITY

High Leverage Levels

Lopsided Packages

Cost – Benefit Mismatch

LEVERAGE LEVELS

- **High, Unsustainable**
- **Equity dose Essential : Augmenting Liquidity
Containing Leverage**
- **Current Norm of Promoters' Contribution of 15% of Lenders' Sacrifice & Even additional norm of min. 2% of Restructured Debt - INADEQUATE**
- **Lenders' Liquidity Support + Income sacrifice should be recognised**
- **Liquidity support ~ 25% - 30% of restructured debt.**
- **Diminution in advance value ~ 10% - 12% of restructured debt.**
- **Case for increasing equity contribution sizably and for specifying its end-use.**
- **Equity from Promoters, from Other Stakeholders or Investors**

PACKAGE FORMULATION

- **Financial Restructuring necessary but not the only or Predominant Component**
- **Do 'Wholesome' Restructuring**
- **Business Restructuring + Financial Restructuring**
 - **Scale Up/ Down Business Size**
 - **Change Product-mix**
 - **Hive-off less viable divisions**
 - **Merge with Group Entity**
 - **Change in Top-Executives/Management**
 - **Sell-off Unproductive / Less Productive Assets**
 - **Induction of Strategic Investors**

PACKAGE FORMULATION

➤ **Strong Checks & Balances**

- **No unapproved CapEx/Expansion**
- **Revocation of package on occurrence of any Two Events of Defaults**
- **Conversion right at par (in default) (without cap) OR at price immediately prior to restructuring approval**
- **Additional Debt mostly as Convertible Debt**

➤ **Time span for becoming viable on Restructuring**

Projects	Existing	Proposed
Infra	10 years	8 years
Non-infra	7 years	5 years

➤ **Indicative Benchmarks for Restructuring: Simple & Flexible**

ALTER COST-BENEFIT EQUATION

- **Currently: Cost to Lenders
Benefit to Company / Promoters.**
- **More Equitable Sharing of Costs & Benefits**
- **Higher Promoters' Contribution/Equity Infusion,
Personal Guarantee, Pledge of Shares, Corporate
Guarantee, Freeze on increase in Remuneration,
Dividend Payment, No Buy-back from PE firms**
- **Cash Sweep/Prepayment, Interest increase if
Sustained/Over achievement of Projected Profits,
Upside sharing through equity conversion at par
(without cap) or at price immediately prior to
restructuring approval.**

MERIT OF RESTRUCTURING

- **Post Restructuring, ~ 85% Cases return to Performing Category**
- **This would further improve if the framework is tightened & and distortions set right.**
- **In that case, the need to withdraw regulatory dispensation after 2 years as suggested may become redundant**

LET US ALL WORK TOWARDS THIS END

Thank you